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Crisis Management in Thailand: The Ambivalence of “New” Keynesian Response*

Johannes Dragsbaek Schmidt**

The glittering promises of globalization are turning to ashes all over the world...Countering this recession is likely to require a substantial dismantling of the neo-liberal edifice. (Brecher and Costello 2001)

Without a capacity for monitoring and discerning where the most acute problems are, countries risk devoting scarce budgetary resources to safety net policy that is not targeted efficiently to those most in need in a specific crisis situation. (IMF deputy director Peter Heller cf Assavanond and Achayakachart 1999)

Introduction

In the wake of the 1997 socio-economic crisis in Thailand several new issues have entered the political agenda, which before the crisis were almost non-existing or at least controversial in the public debate. Some issues came hand in hand with the bailout of the International Financial Institutions (IFIs); others entered the national polity through a number of new agenda setting movements and actors. The new items on the policy agenda are, among others, protectionism, and a U-turn away from export-orientation (EOI) towards the domestic market; a focus on social policies; and in general, a new populist and nationalist discourse. Furthermore, domestic and international criticism of the IMF and the Washington consensus has escalated in tandem with the unfolding of the financial crisis. In the words of an ‘insider’, “All the IMF did was make East Asia’s recession deeper, longer, and harder” (Stiglitz 2000).¹

Western liberal observers describe the new policy in harsh terms. According to the New York Times, Thailand is still reeling economically nearly four years after the devaluation of the Bath, turning inward and away from export-led growth. The pro-Western prime minister Chuan Leekpai was replaced in January with the populist billionaire, Thaksin Shinawatra, who reversed economic policy by re-emphasizing domestic growth over exports, funneling

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billions of dollar to banks and farmers and dismissing those, like the governor of the Thai central bank, with whom he was in disagreement (Landler, June 26, 2001). Also the Far Eastern Economic Review (FEER) notes, what it euphemistically calls “The creep towards protectionism is gaining momentum in Thailand. On August 10, the Thai government passed controversial legislation limiting foreign ownership of Thai telecommunications companies to 25%. The previous cap was 49%. The market reacted negatively, dumping telecom shares across the board as foreign investors read the rollback as a signal that Prime Minister Thaksin Shinawatra's government is moving towards a more protectionist posture” (Crispin, November 1, 2001). Other recent indicators are that in the beginning of October 2001, the government said it would spend as much as B30 billion (US\$673 million) this year to subsidize local farmers by buying commodities such as rice and rubber at above-market prices. The government plans to spend a record B1.02 trillion in the financial year starting October to spur domestic consumption. The Bank of Thailand said it has no immediate plans to lower interest rates, even as other Asian countries trimmed rates in line with the US Federal Reserve. It is low enough to support growth. In addition the government decided to start a fund proposed by the previous administration and is trying to raise US\$250 million from banks, International Finance Corporation, World Bank, and private investors for the purchase of local stocks (<http://aric.adb.org/chronology.asp>). All in all it seems that a deficit driven economic policy putting emphasis on the domestic market has replaced the past decades' search for increasing exports.

Whether the new policy orientation has any substance remains to be seen and as this paper intends to scrutinize the new nationalist social policy focus of the government in order to understand its real intend. The paper is divided into four parts. The first part explores recent changes in the global economy which have had an important impact on Thai policymakers' room of maneuver. The second part explains why the ideology of neoliberal globalization has reached a stalemate and seems to be replaced by a new emphasis on state intervention in the economy. The third part explores in more detail why this also applies to the case of Thailand, and further discusses the domestic and international pressures and conditionalities on the so-called policy of “new” Keynesianism. Finally, the paper rounds up by pointing to the need for further research into the political economy of social policy in Thailand.

Goodbye globalization - hello localization

The causes of the financial crisis that hit Thailand in July 1997 and later on spread to the rest of East Asia and Russia have now been well analyzed and documented (Schmidt 2000b; Li, Hersh and Schmidt 2001).² It was essentially the turning point for the crisis of neoliberal globalization and the end of the day of the Washington Consensus. It is also wellknown that all parties involved

made a catastrophic misdiagnosis of the problem, one that resulted in Thailand getting insufficient treatment. This was done with the direct intervention of the US Treasury and the IMF which forced through an austerity plan including budget cuts and sky-high interest rates. In contrast to earlier financial crises, which were resolved by banks effectively paying a good share of the bill, it ended with a huge bailout of private international investors with public funds.³

With no negotiation, the Thai government adopted the IMF-led bailout package (\$17.2 billion) to maintain the liquidity of its financial system. The largest source of funds came from Japan, reflecting the origin of Thailand's FDI. The funds were almost exhausted after filling the balance-of-payment gap and rebuilding foreign reserves (\$15 billion). The austerity program aimed to restore external balance, stem capital outflows, stabilize the Thai baht, and rebuild investors' confidence. The IMF also imposed many restrictions. For instance, new fiscal policies were required to have a balanced budget by increasing the consumption tax and reducing government spending through a 10% salary cut for all public employees. Privatization of public enterprises was also part of the package (Chotigeat and Lin 2001). Millions of working poor in Thailand were expected to lose jobs in months ahead as the country and the rest of Southeast Asia suffered from the worst financial and economic crisis in decades. Half of the nation's wealth was concentrated in the hands of the richest 10 percent, and income disparity between rich and poor was one of five sharpest in the world (Mydans, December 15, 1997).

Throughout 1997, the government closed down 64 financial companies, leaving 27 and 13 local banks operating.⁴ A new bankruptcy law was introduced in 1998, but in practice the law has not functioned well. The oversupply in real estate and the non performing loans in the financial sector had not been sorted out.

In mid 1998, the economy went into a self-reinforcing downward spiral and the government decided that the austerity program did not accomplish the intended result. With the green light from the IMF, it changed policy in favor of deficit spending in order to stimulate demand. Later in the beginning of 1999, the Thai government created a special spending package (130 billion baht) aimed at jump-starting the stalled economy. Again the loans were financed by Japan (Miyasawa Plan) and the World Bank. The package allocated 53 billion baht in new state spending to boost export competitiveness, to encourage domestic consumption, to purchase goods and services by local government, to create half a million new jobs, and to fund social welfare programs. In mid 1999, the third program attempted to cut producer costs, spur new investment, and help new homebuyers through 102 billion baht in new tax cuts and spending programs (Chotigeat and Lin 2001). In contrast, before the crisis, Thailand was running

such large budget surpluses “that it was actually starving the economy of much-needed investments in education and infrastructure, both essential to growth” (Stiglitz 2000), now with the crisis it seems that a much needed more pro-active policy is supposed to be implemented.

However, the economy has not improved. The year 2001 has been characterized by increasing unemployment, growing government debt, and non-performing loans. The recession has proved more sustained and harder to resolve, as present problems are different than when the crisis took off. In 1998, a booming US economy created a false hope that it could help pull the Thai economy out of recession, while in late 2001, the slumping US economy is a major problem for the strategic reliance and dependency on foreign markets. The September 11 terrorist attacks in New York and Washington have made the storm more severe. An expected drop in foreign investment will also strain Asian economies (Schuman 2001). Yet US bankers and economists fear that Thailand and other East Asian countries, blaming the United States for their woes, will stall on reform. The once rosy picture of the ‘East Asian miracle’ painted by foreign investors and the IFIs has turned into a contradictory situation where either side blames each other for choosing the wrong long-term strategies and short term crisis management policies.

Another difference between pre-crisis and post-crisis management is the increasing competitiveness of China, which is the country many economists believe will be the least affected by the US slowdown. As a matter of fact, roughly 75 percent of the increase in aggregate GDP among all low-income countries has occurred within China in the last 20 years, which poses a tremendous challenge to Southeast Asia.⁵ Foreign investment that once went to countries like Thailand is moving more and more to China. China is already drawing 60 per cent of the foreign direct investment made in Asia and this figure is expected to rise to 80 per cent after it has joined the WTO. According to Supachai Panitchpakdi, who will head the WTO next year: “China should be included in the Asean Free Trade Area (AFTA) so that the Southeast Asian regional grouping is not left behind when China joins the World Trade Organisation,” and “Members of Asean should also ‘compensate’ for China’s entry by making inroads into the Chinese market before the rest of the world does so,” he said furthermore. “Chinese products are very competitive in the United States, we may have to compensate by having an early access into markets in China” (Supachai 2001).

That external factors to a very significant degree are increasingly eroding the room of manoeuvre of Thai economic policy-making and making the EOI strategy obsolete is illustrated by various reports which show that the global economy shrank last quarter for the first time in two decades. In the US, GDP

dropped by four-tenths of a percent in the second quarter, well before the September 11 attacks, and has continued to fall. 415,000 people lost their jobs in September. Growth in global trade fell from 13% in 2000 to 1% in 2001. Stunningly, global cross-border investment has dropped by half. Economists' project declines in Japan, Singapore, Malaysia, Thailand, and Taiwan. The unemployment rate in Japan is the highest since the end of WW II. Prices of natural resource commodities, on which developing countries depend, are off 40%. It seems that "the riotous progress of economic globalization has gone into reverse" (Brecher and Costello 2001).

The global recession is marked by overinvestment in services and industry, leading to overproduction, intense global competition, falling prices, plummeting profits, and consequent downsizings, layoffs, and bankruptcies. This process leads to a downward spiral of reduced consumer demand, and in the end might lead to falling government revenues, and public sector cutbacks. Deflation is occurring in Japan, and projected future price levels in the US are reflecting the same trend. "Today, inflation pressures are at their lowest levels in a generation because of the first synchronous global recession since 1973-75. Historically, such deflation has often resulted in a downward spiral, as investors stop investing and consumers stop buying in the expectation that prices will fall even lower. And the original policies of the IMF, designed to allow countries to correct currency imbalances without driving their economies into recession, have been replaced by near-universal requirements for 'structural adjustment' austerity. In the face of the current downturn, policymakers have cut interest rates and are beginning to forsake neo-liberal principles and promote government budget deficits to stimulate the economy" (Brecher and Costello 2001).

With a global economy in shackles, Thailand is essentially left with a choice between continuing the 'race-to-the-bottom' strategy it has pursued since the mid 1980s or as we have seen at least in rethorics and in the election campaign from the Thai Rak Thai party (TRT), Thailand might embark on a different path of reforms in a 'communitarian-third way' direction trying to establish what is termed a 'new social partnership' between the state and agents from 'civil society'. This strategy, which is worrying foreign investors and representatives of the 'Washington Consensus' involves a particular mixture of populism and nationalism denoting more emphasis on self-reliance and protection of Thai interests. It is simultaneously the result of and response to a social crisis to which there are no easy solutions.

Interestingly, the crisis brought along a localist movement engaging various segments of Thai society into a participatory democratization process. Although this new trend is merged with and is blurred by a blend of new nationalism and

monarchism, it is seemingly an attempt to promote citizen participation and self-rule, self-reliance and self-capacity at the local level (Connors 2001: 4). What are of interest here is the close relations between the new Thaksin government with its reformist program and the NGOs connected with the localist alternative movement.

Some observers see this as the beginning of a new historic compromise and recomposition of the state. "... the legacy of the economic crisis in Thailand may have been to mainstream localism, not merely as an ideological cover for ultra-nationalist reaction, but as an integral component of a new economic compact. Thaksin, both in words and deed, hints in this direction: 'perhaps it is only half true that we are following a populist strategy But we have ignored the bottom half of the economy for a long time. Now we are coming back'"(Bangkok Post 30 January 2001 cf Connors 2001: 22).

Whether these statements are a cover for receiving political support and legitimacy or reflect true concerns for the local struggle of emerging 'civil society' actors or whether the latter are simply being used and coopted by the new government and the World Bank is an open issue. However, it seems that the contours of a new economic and social policy, either as crisis management or in a longer perspective as a whole new political and economic strategy, are emerging out of the ashes of the crisis.⁶

The new global Keynesianism or why big capitalists want a big state⁷

Comparative political economists have developed different arguments regarding the determinants of social policies. One type of argument points to social welfare policies convergences due to an underlying logic of industrialism, and another sees them as state responses to the social requirements of capitalism. A third view approaches the problematique from quite another angle by suggesting that the survival of market-based capitalism is essentially based on a Keynesian strategy which saves it from self-destruction (Galbraith 1997: 5). The necessary prerequisite is a social compact between labor and capital. This type of argument is based on two readings of the Keynesian social welfare state. One sees it as a tool of compromise when the foundation of capitalism is at stake like during and after the crisis in of the 1930s and post WW II. The second reading regards the socio-economic dimension (i.e. the surplus absorption); by functioning as a demand primer, including social expenditures, Keynesian macroeconomics alleviates the tendency towards stagnation (Schmidt & Hersh 2000: 8).

This understanding is closely related to the important debate regarding the past and present of the way ties to the world economy, patterns of geopolitical and geoeconomic competition, and processes of transnational cultures, ideologies

and policy discourses have influenced social policies. The impact of the external determinants on economic and social policy agendas cannot stand alone, but should be paired with an understanding of the impact of domestic actors on states policymaking.

These theoretical concerns make the recourse to history important - and broadly speaking, the neoliberal prescriptions on economic and social policies cannot be based on the past record. History provides no clear examples of laissez-faire policies which resulted in high wage economies capable of supporting widely dispersed welfare benefits for a large population. Essentially what has happened, also in the case of Thailand, is what Bienefeld (1993: 31) has called “the disarming of the state.” Financial deregulation is a route to an increasingly polarized society in which the majority will suffer sustained welfare losses and in which the goal of a more humane, caring and leisure-oriented society will soon be dismissed as utopia.

In this regard the question which policymakers, social activists and academics face in view of globalization is whether the process will result in greater social welfare or whether globalization serves to reduce the social dimension of twentieth century capitalism. This problematique has gained special significance in the context of the breakdown of East Asian authoritarian capitalism. Will an evolution towards more democracy open the way to a greater contest over the economic surplus/social product? How will the political systems absorb the demands of the social classes at a time when adjustment to the conditionalities imposed by the IFIs go in the direction of the dismantling of the Thai-style developmental state?⁸ In order to give an appropriate answer to those questions it is intrinsically to analyze the interplay of internal and external forces and institutions disregarding which level determines the other as they are intertwined in various obvious ways.

The increasing power of transnational corporations and the growth of supranational global governance institutions such as WTO, the World Bank, the IMF and not least NAFTA, APEC and the EU are playing an increasing role in liberalizing world trade - although the state managers have been part and parcel of this deregulation and privatization process, it has on the other hand also had the effect that national states are losing power. “Consequently, Keynesianism, social planning, and the welfare state often have given way to monetarist policies, even under Social Democratic governments” (Olsen 1998: 351).

It is in this context that after the Asian crisis, the Russian default of 1998 and the collapse of the US hedge fund Long Term Capital Management (later on saved by a government bailout!), the contagion effect of the global crisis, and the effects of the 11. September attacks, governments are preparing emergency

plans to remedy 'market failures'. In the US, the UK and the rest of the EU government money is bailing out everything from airlines to insurance companies and medicine has been bought below market prices by the US in Germany - and "the pressure to return to 1970s-style interventionism will be great" (Preston 1 October, 2001: 32). Subsidies have again become the name of the game. After the fall of yet another utopian project - 'the universal free marketplace' - the image that all countries following the Western route to modernity or what some call globalization - has fallen into pieces. In reality, this image has been deformed by a market ideology that is far removed from any human reality... (Gray 24 September, 2001: 25).

The basic question is whether the EOI model will be replaced by a new type of interventionist state. The new buzzwords in Thailand i.e. social partnership, a restructured state, and a new social compact denote a peculiar blend of 'communitarianism' and a Blairist 'Third Way' neo-Keynesianism.⁹

Keynes did believe in a 'mixed' partnership between state and private venture and that some basic functions of a nation's economy should remain a central and directly controlled concern of the state, which should be financed through taxation. Neo-Keynesians such as Stiglitz believe it is part of the state apparatus' responsibility to monitor and enact policies affecting both the internal and global dynamics of the political-economic environment. This is based on the recognition that a government's primary responsibility lies in its duty to its citizenry, and, where necessary, direct intervention in the economy may be requisite in discharging this responsibility. So, the neo-Keynesians see the role of the state in the economy as necessary. With the original Keynesian approach, the state can be seen as an active partner with private industry in the economic affairs and conditions within its own boundaries. Neo-Keynesians tend to see the state more as an overseer vis-a-vis social provision, rather than as the active partner (White 2001).

Stiglitz's argument is a harsh critique of the IFIs 'one-size-fits-all' austerity approach as it puts stress on the necessity of variety in approach to each economic area's economic circumstances. This must take into account the area's (usually a state's) history and, crucially, its economic and social history (i.e. employment, taxation and redistribution, and social jurisdiction and traditions).

The critique goes even further as it pinpoints the US administrations' tremendous influence on the workings of the World Bank and the IMF. Stiglitz and other neo-Keynesianists note that institutional reforms must precede de-regulation of an economy. We see the outlines of a different approach to that of the current IMF "packages" which all have privatization and marketization high on their agendas. However, any paradigm shift is likely to be slow - as serious

and step-by-step carefully considered institutional change is not congenial to IMF boardrooms which operate on the basis of ideology and blackboard economists' diagrams. This workstyle doesn't pay due attention to the result of conclusions drawn from systematic study of a particular country's modern economic system and political experiences which, particularly in the case of the current Asian scene, seems to be urgently required (McFarlane 2001).

This brings us to the current interesting, paradoxical position of the state as an entity in the global political economy. As we have already seen, the purported dominance of neoliberalism would appear to indicate that the state's role is little more than as a facilitator of private enterprise within its borders. "Yet, in the case of the US vis-a-vis global institutions, it appears that those who fear that elected politicians are losing economic control to faceless multi-national institutions, may be premature in their assessments, despite the situation (to paraphrase Orwell) that some states are more equal than others" (White 2001).

What the Asian crisis subsequently revealed was that the speed of deregulation cannot be uniform. It must be adjusted to the special circumstances, politics and even culture of each country. The personality of a Central Bank governor might even be significant in determining the effectiveness of a deregulated financial system and the movement of free exchange rates (McFarlane 2001). What is really new in this context is the call from big business to encourage the state to intervene in the economy, and in a number of cases these calls have been extended to (re)nationalize ailing industries and credit institutions. Such proposals have been made by such varied actors and speculators as J.P. Morgan and various representatives from Thai productive capital, but has at the same time been opposed by representatives of both domestic and international financial capital. Even the liberal conservative magazine *The Economist* suggests that "....capitalism as it exists in the West, with safety-nets, public services and moderate redistribution bolted on' is a way to have capitalism while not hurting the poor too much" (Cf Hewison 2001a: 10).

The new nationalism, privatization and social policy in Thailand

Although it is now clear that the major causes of the financial crisis were ill advised and non-sustainable demands of deregulation, privatization and liberalization, the neoliberal pundits have gained new air. At the recent WTO meeting in Doha in Qatar items such as health care, education and social policy were debated as suitable for privatization. Also the World Bank and the IMF have for two decades advocated commercialization of those potentially collective goods and market interests are lining up to invest in user-fees and corporate social welfare. However, it is first and foremost privatization and liberalization of public enterprises which is at stake for what some vested interests in Washington term the new nationalist and populist government of

Thailand which has committed itself on a social partnership with segments of the NGO sector and apparently postponed, footdragged or even opposed privatization pressures from the IFIs.

The following briefly evaluates the background of privatization efforts of state enterprises, health care, education and social welfare policies in order to tentatively evaluate whether the new localism cum nationalism of the Thaksin government will provide a fundamental shift in policy focus or whether it is new wine in old bottles!

Privatization happens for three reasons: 1. the end of political ideological conflict between capitalism and socialism; 2. the completed status of welfare state policy and 3. the governments' need for money to support their budget deficits. For developing countries such as Thailand, the government's need of money to reduce its current account deficit is a reason for privatization, but that is not the main reason. The real blessing comes from getting rid of inefficiencies in the SOE services. The reasons and types of privatization of each enterprise might not be the same. "Some enterprises are not profit-making firms, but they must exist for welfare or for security reasons... The government should find ways for SOEs to be more efficient and to be productive" (Pouaree 1997).

Privatization has had an interesting history in Thailand when taking into consideration that it is widely believed that income inequality increased significantly during the 1990s as a result of a boom in asset prices and the various privatization and deregulation measures adopted by the governments (Ramesh 2000: 22-3). This makes it even more difficult to understand the reaction of the Chuan government after the crisis that obviously favored the increase of private participation in the public service.

In the Washington Post, Sandra Sugawara reported from Bangkok: "Hordes of foreign investors are flowing back into Thailand, boosting room rates at top Bangkok hotels despite the recession. Foreign investors have gone on a \$6.7 billion shopping spree this year, snapping up bargain-basement steel mills, securities companies, supermarket chains, and other assets. A few pages behind stories about layoffs and bankruptcies are large help-wanted ads run by multinational companies. General Electric Capital Corp., which increased its stake in Thailand this year through three major investments in financing and credit card companies, is seeking hundreds of experts in finance and accounting, according to one ad. General Motors Corp. is recruiting aggressively for its massive new Thai car assembly plant, scheduled to open in two years" (Sugawara November 28, 1998).

Nicholas Kristof expanded on this theme in the New York Times: "'This is a crisis, but it is also a tremendous opportunity for the US'....'This strengthens the position of American companies in Asia.' A clear indication that the Asian crisis would further the American agenda came in December, when 102 nations agreed to open their financial markets to foreign companies beginning in 1999. It is unclear how the pact will be carried out, but it marks an important victory for the US, which excels in banking, insurance and securities. Fundamentally that agreement and other changes are coming about because Asian countries, their economies gasping, are now less single-minded in their concern about maintaining control. Desperate for cash, they are less able to pick and choose, less able to withstand American or monetary fund demands that they open up" (Kristof, February 1, 1999).

As mentioned above, under pressure from the IMF, the Thai government was forced to scrap a regulation that limited foreign corporations to a 25 percent stake in Thai financial companies. Citibank signed a memorandum of understanding on the purchase of a major Thai bank - First Bangkok City Bank. As a matter of fact, "the crisis resulted in a massive restructuring of ownership and control in the economy. Devaluation meant the end of many businesses, with hundreds closing in all sectors. This saw a transfer of ownership to Japanese, American and European investors through debt-for-equity swaps, investment in devalued companies, and buy-outs of Thai partners", but "as the government took over four struggling banks and closed many finance companies, one-third of the financial sector's companies were gone by the end of 1998." "At the end of 1999, the total state investment in the banks alone was US\$ 12 billion or about 10 percent of GDP The bailout of the financial sector means that every taxpayer will be footing the bill for at least a generation" (Hewison 2001d: 9, 10 & 13).

Turning to the issue of privatization of state enterprises, the Thaksin government had originally pledged to raise the market capitalization of the moribund Stock Exchange of Thailand (SET) by about 700 billion baht by listing 14 state companies in the next two years. Profitable monopolies such as the Telephone Organisation of Thailand (TOT) and the Communications Authority of Thailand (CAT) were due to be sold in 2002.

In October 2000, the State Enterprise Corporatisation Policy Committee ordered the TOT and CAT to complete privatization within 120 days. In 2001, the task remained undone. And at the Airports Authority of Thailand, the threat of strikes by workers stalled the program. Privatization entered the policy agenda after the financial crisis struck in 1997, and the IMF demanded that the government divest its stake in the biggest state-owned financial institution, Krung Thai Bank, and other banks, as part of its loan package. "The Chuan Leekpai

government agreed, but buyers were put off by Krung Thai's high non-performing loans. The latest is that Krung Thai could be privatized in the second quarter of next year. The divestiture of the government's stake in Thai Airways, originally slated for the end of 2001, has also been postponed till 2002, following a troubled year for the flag carrier" (FEER, November 27, 2001).

During boom times before the crisis, the SET was worth 3.5 trillion baht, but its capitalization has since been eroded to less than half that figure reflecting the onslaught of whole sectors and companies. Many Thais fear losing control over domestic business if foreign capital gets too much influence (<http://business-times.asia1.com.sg/views/story/0,2276,28895,00.html?>).

As a reaction to the changing popular sentiments the foreign-investment cap introduced in late 2001 look to be more exclusive. "Generally speaking, the new law means fewer companies will be able to enter the Thai market," says Somkiat Tangkitvanich from TDRI. "Incumbents who can hold shares without a strategic partner stand to benefit most," he adds. It is still unclear how the new law will finally be interpreted, but the cap sends an unmistakable signal. "Foreign investors have other places they can put their money," says Kosol Petchsuwan, president of the Telecoms Association of Thailand. "Unfortunately these new barriers could start a worrisome chain reaction" (cf Schuman 2001).

The topmost bureaucrat in Thailand's finance ministry, Somchainuk Engtrakul, recently claimed that "the government needed money from the sale of state-owned companies because tax collections were not enough to finance the budget deficit (FEER, November, 27 2001). This statement reflects the ongoing bitter struggle between international market oriented technocrats and nationalist oriented bureaucrats in the state apparatus. The Thai government has shown reluctance to sell its 'state jewels' in a bid to repay the government's massive foreign debt of 2.89 trillion baht (\$11 billion), which amounts to 56 per cent of Thailand's GDP.

According to FEER citing Jayasankar Shivakumar, outgoing country director of the World Bank in Thailand the status quo is risky to Thailand's future economic health. "If power is not competitive, then the country will not be competitive. If the aim is to reduce tariffs, improve efficiencies and alleviate government debts, then there really is no other option than privatization" (Crispin 2001). Again illustrating the interests of foreign investors and neoliberal ideology, FEER notes that, privatization of Thailand's rigid state enterprises were always going to be a tricky business, requiring hard-nosed political choices. And with the economy slipping again, those choices have become ever more urgent. Unfortunately, the efforts so far resemble 'business as usual' (Crispin 2001).

The current debate on privatization is encapsulated by a noticeable shift in government strategy, and can be interpreted as being based on both nationalism and populism. As such its focus on the local is a conscious and oppositional response to neoliberal globalization. As Hewison notes, “the nationalism of the localists is politically conservative, while the localist vision is a romantic construction of an imagined past.” They furthermore “... reject industrialization as a development strategy, seeing industry as a cause of exploitation and of the degradation of the environment” (2001c: 13 &15). At least in a short-term perspective it seems that, the new economic policy will be based on a more regulatory role for the state.

Turning now to social policy and the role of the health sector, the past two decades, have seen powerful international trends in market-oriented health sector reforms being swept around the world, especially from the North to the South. Introduction of user fees for public services has become entrenched in many developing countries since publication of the World Bank policy document of 1987. Since then, the World Bank strategy has been powerfully reinforced by the practice of making user fees a condition of loans and aid from the IFIs (Whitehead, Dahlgren and Evans 2001).

The privatization policies of the IFIs for instance in health care is highly regressive, because pooling of risk is reduced and care costs fall more directly on the sick (who are most likely to poor, children or elderly) than on healthy individuals and the result is a medical poverty trap consisting of “Rises of out-of-pocket costs for public and private health-care services are driving many families into poverty” (Whitehead, Dahlgren and Evans 2001).

Although there are government-funded insurance policies for civil servants in Thailand out-of-pocket expenses continue to be the primary source of funding for health services, accounting for 65.4 percent of the funding. The private sector continues to dominate the health sector by its stake of 67 percent of total health expenditures which is equal to 4.1 percent of GDP (government components are 33 percent of total and 1.9 of GDP). Private hospitals are growing at an estimated rate of about 12-15 percent each year and may soon become the major provider (Ramesh 2000: 101).

In Thailand, poor people pay proportionally more for health care than rich people do. Although the number varies according to statistics and sources, and the dubious fact that the World Bank has changed its definition of poor, the Bank’s own figure is more than seven million people are below the poverty line of US\$ 1.50 per day (Hewison 2001b: 14). The IFI’s and ADB’s directive to privatize health care is opposed by representatives of Thailand’s huge HIV-aids infected community, as an estimated 800,000 of whom survive with state

medical aid. Recently several hundred Aids patients joined protests at the ADB meeting in Chiang Mai, forming a so-called 'living cemetery' to bring public attention to their plight (Z-Net). To put those numbers into perspective, Thai society is full of contrasts and contradictions. In Bangkok, the number of non-Thais checking in for treatment at the leading private hospital, Bumrungrad, has increased fourfold since 1996. This year, the figure will top 170,000. And Malaysian and Thai hospital operators want even more (Cheng 2001). In fact, there is evidence that user charges promote inequity by discouraging the poor, but not the well-off from seeking health care and to make matters even worse "combining insurance financing with private provision is one of the surest ways to escalating costs" (WHO 1993 cf Ramesh 2000: 84 and 101).

It is not clear whether the Thaksin government wants to continue the privatization drive or make health a collective good. What is clear though is that there is an increasing demand for better and cheaper health services. Currently, Thailand's health systems are facing a financial crisis, demographic and epidemiological transition, and an increasing demand for more and costlier services which marks the urgency of a health reform in the nearest future.

Turning to the contested role of education which still belongs under the General Agreement on Trade in Services (GATS) whose latest round took place in February 2000 it is wellknown that the US and Canadian administrations want to privatize university education and adult training. As mentioned above, the beginning of the 1980s saw the launching of a massive strategy on the part of the IFIs to pressurize the developing countries and to force them to drastically cut state spending on health, welfare and education. Paradoxically, the World Bank recently came to the conclusion that educational levels in the Third World had reached mediocre levels, but concluded "that those countries which are willing to adopt legislative and regulatory frameworks for higher education ... in which the private sector has a greater involvement in teaching and finance, will continue to receive priority (World Bank 1995 cf Kalafitidis).

In 1996, the Thai government began to offer various tax incentives and loans at low interest rates to encourage the establishment new private schools; likewise the government has been encouraging foreign universities to set up branch campuses in Thailand. This was in response to the demands of the private sector "but even with the rapid gearing up of secondary education, by the year 2000 over 70 percent of the workforce would still have no more than six years of primary education" (Phongpaicit and Baker 1998: 149).

This is also why the World Bank advertises that the investment outlook for private education in Thailand is very good. According to the World Bank, "there is a vigorous private education sector, which has already made significant

inroads into the education market, and which is poised for further expansion, particularly in the vocational area. Private pre-primary schools account for about 20% of children enrolled, while about 12% of primary schools are privately operated. The private sector accounts for about 6% of the total number of lower secondary, and 23% of upper secondary schools. Moreover, nearly 50% of students are in private education at the vocational level, and significant numbers are also in higher academic education. The Thai government is already seeking foreign loans to support public education. Allowing foreign investment in private education to continue and to increase, but on more favorable terms to the international suppliers, is an increasingly probable development. There are examples of private, for-profit, companies that have already succeeded in obtaining licenses to operate universities and colleges, and it is interesting to take notice of Thailand's recent relaxation of some of the rules for education investment. Private education institutions are now permitted to have tax exemption of their operational profit and the owners of a private university are entitled to retain for themselves 15% of income. Moreover, once an institution has obtained a license to establish a higher education unit, it is allowed freedom in organization and management" (<http://www1.worldbank.org/edinvest>). There is no doubt that in recent years the trend towards privatization of education has increased, particularly in higher education (Ramesh 2000: chp.5), which is awkward when taking into consideration that the public educational system historically and contemporarily has been considered by "the ruling class as an instrument for promoting national integration and for propagating the subject's morality and virtues" (Bechstedt 1991: 303).

Marketization of education threatens to exacerbate not only the disparities between schools in terms of educational outcomes but also the existing social inequalities (Ramesh 2000: 143). The privatization drive and its concomitant passenger growing unevenness and inequality have been part and parcel of most governments policies in Thailand in recent times. This is also why it is important to stress that there are no signs whatsoever that the new Thaksin government wants to reverse these trends as the number of public enterprises privatized including education have been steadily increasing.

The question about social protection has for a decade or so been debated in the Thai political context. This endeavor has been an achievement of the labor movement, which although weak on paper has managed to pressurize the authorities on this important issue. In connection with this trend, the international pressure and the present period of democratic opening has brought about an embryonic demise of the legitimacy of state-sponsored and employer-dominated labor unions with a re-emergence of independent, representative organizations characterized by growing militancy (Lambert and Caspersz 1995: 572/580/583). This is also the result of the activities of several international

organizations such as the AAFLI, ICFTU, and ILO who for years have lobbied Western countries to impose trade sanctions in retaliation for the general disbanding of unions and ban on strikes and other government induced industrial actions. There is no doubt that labor welfare campaigns and common strategies aimed at the establishment of social security systems and other solidarity measures have been increasing, not only in Thailand, but throughout the Southeast Asian region (Brown and Frenkel 1995: 82-106).

The militancy has also been directed against the contractionary monetary and fiscal policies of the IFIs which induce recessionary pressures, corporate closures, lower or negative growth rates, retrenchments and higher unemployment. Cutbacks in government expenditure lead to reduced spending on education, health and other services. The switch in financing and provision of services from a grant basis to user-pay basis impacts negatively on the poorer sections of society. The removal or reduction of government subsidies jacks up the cost of living including the cost of transport, food, and fuel. These and other policies have contributed to higher poverty, unemployment, income loss and reduced access to essential goods and services. It is not a coincidence that countries undergoing IMF conditionality have been affected by demonstrations and riots (popularly called "IMF Riots"). The social impact of IMF policies is another major cause of the crisis of credibility in IMF conditionality (Khor 2001).

After the crisis and on the initiative of the ILO a tripartite mechanism was established; however it soon turned out that at the root of what may be described as a weak basis for tripartism is the continued constraints on freedom of association. In fact, the credibility of the officially sanctioned and legally recognized national trade union center is very much eroded now and workers with grievances, including members of the official unions, are increasingly looking elsewhere for representation. Since recent initiatives to develop independent and democratic trade unions have been constrained by government repression, workers' organizations are forced to operate beyond the ambit of the law, and often clandestinely, are generally unable to effectively and openly criticize government policies and programs (ILO 1998 cf Schmidt 2002). Although labor comparatively speaking is weak and not very well organized it was nevertheless a major force behind the enactment of the Social Security Act in 1990.

Evidence shows that because of the very low state schemes for improving the income and welfare of employees to catch up with inflation, Thai workers' demands initially concentrated on wage increases. But this pattern has been changing. This is clear from the fact that "major issues of labor disputes from 1987 to 1989 concerned welfare (33 per cent) wages (20 per cent) conditions of

employment (18 per cent) and other issues (29 per cent)" (Piriyarangsang and Poonpanich 1994: 241). The struggle to obtain social security protection in Thailand dates back to the 1950s, but in the late 1980s renewed pressure through public demonstrations and campaigns from the Labor Congress and Trade Union Congress resulted in the promulgation of the Social Security Act of 1990 (Brown and Frenkel 1995: 104). The first phase was implemented in 1992 and covers health insurance, maternity benefit, disability benefit and death benefit. The scheme is financed by employers, employees and the government each paying 1.5 percent of wages as contributions, but there is serious debate about the second phase (Asher 1995: 16).

On several occasions the IMF has interfered in the Thai domestic debate with regard to social policy by either directly or indirectly threatening officials and government representatives. For instance, in 1998 the Labour and Social Welfare Ministry planned to expand protection for retirees and dependents (children of retirees) by proclaiming publicly that this part of the population represents basic social welfare deserving state support. According to the IMF such a move would be in conflict with international practices and could become a costly burden in the future and "...that protecting retirees and children should be left to the private savings scheme and was outside the responsibility of the government According to various sources at least six million households would qualify for state assistance, either through the fund or from other government run programmes" (Sirithaveeporn 1998). Already in August 1997 one month after the crisis hit the country, the government tried to avoid contributing to the Social Security Act which requires employees and employers each to contribute 1.5 percent of monthly wages of employees to the Social Security Fund. "Thai Trade Union Congress secretary-general Pratueng Saensang said the government has an obligation to contribute to the social security fund. But it failed to make the seven-billion-baht contribution in April, citing economic and financial difficulties". This violated the rights of workers, and the TTUC threatened to sue the Social Security Office, but representatives of the government left the question to the tripartite committee to decide (Unarat 1997).

The policy of the IFIs has been to promote the establishment of adjustment-related temporary social safety nets known as Social Funds (SFs). "The aim has been to offset the negative social impact of policy reform. SFs are increasingly conceived as an intermediate and long-term delivery instrument which is more efficient than traditional means of service delivery through established ministries, through their employment of an ostensibly more participatory, decentralized, and 'demand-responsive' approach. In this connection they have been seen as everything from a 'beachhead' for the modernization of the state (through the 'demonstration effect' they have on ineffectual state bureaucracies) to a 'training ground in the democratic process'" (Cornia and Reddy 2001: 11).

Various components of the World Bank's Social Investment packages have contributed to Thai NGOs and 'civil society' actors, as well as also provided assistance to the poor to cover health and education expenditures.

An editorial from the leading newspaper *Matichon* said that the Chuan government risked losing support if its focus didn't change from the financial sector to the poor and underprivileged and that the trickle-down policy had not improved the livelihoods of the ordinary people and that more power should be transferred to the Social Policy Committee (*Matichon* cf *Bangkok Post* August 27, 1997).

In the days and months leading up to the election, the debate in Thai newspapers referred to a breakdown in social policy; one common theme was a tendency to reduce complex social problems to, for instance, "family breakdown" as a code for bad society which only a government with "values" could fix. One politician suggested that "We believe that with a warm and healthy family, every social problem - drugs, street children, child exploitation, and prostitutes will be solved" (Assavanonda 2000).

The official view of the Thai government is to boost the capabilities of families and communities in order to help them achieve greater self-reliance and to support individual development which is very much in compliance with the new Thaksin government's goal of enhancing social partnership. Whether the goal is to attain equity or not is still too early to judge, but social welfare policies have so far been based on neoliberal thinking while economic policy has changed into a more nationalistic and protectionist direction. The emphasis is laid on self-reliance, family and community mutual care, voluntary charity, and philanthropic initiatives and this is where the alliance between NGOs and the new government makes sense in a country where in the aftermath of the crisis there has been a transfer of wealth from the poor to the already rich.

The new Thaksin government is squeezed between the demands and conditionalities of the IFIs, and an increasingly vocal popular protest movement against foreign influence. This situation is illustrated by the fact that according to the World Bank,¹⁰ the social impact of the crisis has been that 1) labor markets have worked well to cushion the effects of the crisis, but as Hewison notes when translated it means "that markets worked in spreading out the impact more evenly among workers. That is people were able to be laid-off easily. Because there was only a minimal social security system laid-off workers then went in search of other jobs. While they did this, family savings supported them. Family savings were depleted in this process. This implicated most heavily on the already poor;" 2) the World Bank recommends that social safety net expenditures be reduced by more than 16 percent. "Part of the reason for

recommending reduced expenditures was the view that, based on 1994 data, the Bank argued that only about 6 percent of government expenditure benefited the poor, while 25 percent concentrated on the rich.” 3) Again according to the Bank, the poor used their discretionary resources and savings on health and education, which means that “as the wealthy's ‘discretionary’ expenditures were more substantial, the impact on their wealth was relatively less;” 4) Finally, the Bank acknowledged that ‘traditional mechanisms’ of community-based support have broken down, and in contrast to its conclusion mentioned above, it recommended an increase in unionization.

Concluding remarks

Although it is too early to review or evaluate the Thaksin Shinawatra government's virtues there is no doubt that it has become symbol of a nationalist backlash against IMF conditionalities and forced deregulation and privatization. During the election campaign Thaksin and the TRT devoted much concern for the plights of the poor and a harsh critique of Chuan Leekpai and the Democrats' giving in to neoliberal demands from the IFIs - the claim was being made that they had sold the country to foreigners and devastated domestic business. With regard to the question of privatization it is not yet clear whether the resistance made by the Thaksin government against demands from the IMF and World Bank is based on a genuine policy shift or on protection of domestic vested interests. “TRT may be expected to slow liberalisation in some areas. The party may rollback some changes to laws, and to give an ‘edge’ back to domestic business. That Thaksin is populist is an advantage as the pacification of the class struggle through a credit-sustained boom has been demonstrated in Thailand, and the threat of unrest of the kind seen in Indonesia is a worry for business” (Hewison 2001d: 18). Thai businessmen have taken key positions in the cabinet. Dej Boonlong, the Labor Minister, is a wealthy businessman and president of Thai Teijin Textile and Thai Textile, which recently laid off a substantial number of workers. Telecom tycoon Adisai Potaramik is now commerce minister. This media magnate Pracha Maleenond has been given the post of deputy communications minister and Suriya Juengrungruang, one of the country's biggest auto parts dealers, was appointed industry minister. These appointments make the situation even more fluid than expected during the election campaign.

In the aftermath of the financial crisis which hit Southeast and East Asia in late summer 1997 there was suddenly much talk in the media about the need for social policies and even the IFIs urged the governments in the region to establish social welfare states of a kind. Obviously they feared instability and that grave political and social consequences, in a worst case scenario, would set foreign investment in jeopardy and this would spell the end of the EOI growth model. What was at stake was the *growth model without social welfare* of the

‘Washington Consensus’ and suddenly the same proponents of neo-classical and neo-liberal development strategies saw themselves in the awkward and contradictory situation arguing for the opposite of two decades doctrinaire economic policy recommendations. This U-turn in IFI conditionality had a notable impact on the Thai debate with regard to economic and social policy.

Both left and right political discourses in Thai have relied on the idea that, ‘civil society’ can replace the role of the state. The basic argument in this paper is that ‘civil society’ at least in its mainstream understanding cannot replace the state, but should make a greater effort into pressurizing the state to take up basic responsibilities and enhance developmental and regulatory state capacities in accordance with its level of development. “There is great danger that the current overemphasis on ‘civil society’ detracts or hijacks the focus away from what is of immediate importance in any country with high levels of poverty, inequality and social crisis. If ‘civil society’ includes social groupings and strata like organized labor and the peasantry it makes sense as recent examples have shown that the labor movement has been relatively successful in pushing for the Social Security Act despite resistance from the entrenched business politico-business alliance” (Schmidt 2002).

Against this background it is important to note that social safety nets cannot, realistically, be constructed in a short time perspective. Similarly, measures such as attempts to save viable enterprises and active labor market policies can achieve only limited results when they go against the grain of macroeconomic conditions, and mixed signals from the international realm. With a weak ‘civil society’ and a non-responsive state which “cannot cope with demands, due to lack of resources or loopholes in the welfare system, there will be widespread social problems, discontent, and instability” (Chan 2001: 31). Furthermore the scope of social policy is extremely limited since the focus of the IFIs is to promote limited, individualized and temporary social safety nets; thus the current focus on poverty programs per se distracts attention from its two main dimensions: employment and income policies and other social programs besides health, education and social welfare, such as pensions, housing and subsidies to basic consumption; finally, as a consequence redistribution of land, income and resources disappear from the intellectual and political agenda. In this context the current move by the IFIs can be interpreted as a conscious way to promote ideological hegemony by distracting the real issues from the domestic and international policy and social agenda.

Related to this discussion, the Thai scholar and activist Ungpakorn argues, that the Thai working class has been, and continues to be, an agent for social and political change (Husan 2001). According to him the aim of the NGOs is “to channel worker discontent away from strikes and into constitutional channels to

press for social reforms. Rather contradictorily, the NGOs supported the 1997 constitution that barred all those not having a university degree from standing in parliament.” The NGOs are advocating a ‘left nationalist’ politics seeking to side with domestic capitalists against foreign capital. The NGOs concentrate on trade union leaders rather than the rank and file with the aim of setting up national tripartite institutions. ”Such a plan, however, finds resistance from trade union activists who oppose the strikingly termed ‘stinking water trade union leaders’ (named after the famed back street sewage drainage in Bangkok) of which there are three types: gangsters, stooges of the security services, and fat cat bureaucrats. This might help explain why the union density level is only a little over three per cent but, Ungpakorn argues, their baleful influence is offset by thriving networks of unofficial activists in ‘area groups’ and ‘coordinating committees’”(Husan 2001).

Globally, flexibility has become the buzzword for dismantling of the welfare state, even of the sort of hybrid welfare state in Thailand, but this issue is seemingly being contested from below by demands for democratization and social reforms. The debate about social policy in Thailand has so far been dominated by those who believe in neoliberal ideology, which essentially is a matter of identifying needs, solve problems and create opportunities at the individual level. ”The causes behind the needs for support are believed to rest overwhelmingly in individuals and subcultural defects and dispositions. Responsibility is deflected from states and national economic, administrative and legal organisations to individuals and groups. Little attention is paid to the interacting consequences of economic and social change for families, employment, taxation, housing, social security and public services” (Schmidt 2000a: 166).

In conclusion, it should be emphasized that the institutional apparatus through which dialogue on the consequences of the crisis of social and economic adjustment could occur is absent. Evidence shows that the examples of cooperative labor-management relations are “(i) likely to be in the minority, and (ii) slower to diffuse in the absence of a well-developed trade union movement” (ILO 1998 cf Schmidt 2002).

Given this background it would be wrong to describe the current policy as either new or old Keynesianism. It is rather a short term temporary pro-active policy to ride the storm and to avoid turmoil. A new type of import-substitution is probably emerging, but it can easily survive side by side with the emphasis on exports. One consequence common to both the privatization drive of state enterprises and all three social policy sectors is “the increasing role of the private sector in the provision and/or financing of social programmes. Provision by non-state actors is portrayed as being more efficient and even moral, whereas

provision by bureaucratic organisations is described as expensive and fostering welfare dependency (Ramesh 2000: 181).

As a post festum it is indeed necessary to stress the need for more policy research to assess the validity of assumptions that underly market-oriented reforms, and the options for, and constraints on, development of efficient and equitable public health, education and social policy sectors. Furthermore, there is a dire need for more research into the deep rooted causes of poverty and inequality which in most cases can be removed only by structural interventions such as land and other types of redistribution, educational expansion and reforms of state institutions and credit systems.

¹ The consensus between IMF, the World Bank and the US Treasury Department is based on the ideological proposition that the key to success in developing countries are three things: macro stability, liberalization (lowering tariff barriers and market deregulation) and privatization.

² This paper regards globalization as a neoliberal ideology, but also as a concrete challenge and threat, creating winners and losers in the international economy. The impact of globalization on Thailand, and the actual cause of the crisis, occurred through a number of phases: through foreign investments, pressure from multilateral institutions to open up different sectors particularly the finance and the banking system and through currency speculation, unregulated short-term capital flows, particularly unregulated portfolio investments from hedge funds and pressures on the exchange rate from the revaluation of the Yen and the devaluation of the Renminbi which furthermore affect the room of manoeuvre for the execution of economic policy. Thus weak supervision of banks and poor state regulation of domestic private financial sectors were the results of yearlong pressures from the IMF, the World Bank, unaccountable international rating bureaus like Moody's Investor Service who review emerging economies credit ratings, and emerging domestic business segments always in search for easy short-term capital for speculative purposes without any developmental or domestic considerations. The genesis of the crisis lay in the way the country opened its doors to foreign capital. Thailand liberalized by allowing domestic investors access to cheap offshore funds through the Bangkok International Banking Facility (BIBF), launched in 1992. But it made the mistake of keeping the baht pegged to the US dollar. With no concern about currency devaluation, freewheeling Thai speculators borrowed freely and imprudently, without hedging. Actually the crisis was an effect of underregulation rather than of overregulation as the spokesmen of globalization claim (Schmidt 2002).

³ See the informative series of articles by Nicholas D. Kristof and Sheryl WuDunn in New York Times February 1 and 17, 1999.

⁴ In early 1998, the Financial Sector Restructuring Authority (FRA) and Asset Management Corporation (AMC) were created to handle the assets of the now defunct financial companies. Since December 1997, more than 2/3 of the financial companies and two banks were seized with a book value of 384 billion baht in assets in the form of loans, real estate, office equipment, automobiles, etc. By December 1998, the FRA was able to sell only 1/3 of the total available lots (15 out of 45 or 41% of the value) represented by an average bid of 37 % of book value. The process was very slow and many assets were short of official documents (Chotiyeat and Lin 2001).

⁵ See the interview with Joseph Stiglitz in *Multinational Monitor*, April 2000.

⁶ See also the interesting discussions of reforming Thai politics in McCargo (forthcoming).

⁷ The following three paragraphs build on (Schmidt 2001; Schmidt and Hersh 2001).

⁸ In a recent report UNRISD (2000: 2-6) sets out four ways how globalization impacts and affects national-level social policy in the North: 1) It sets welfare states in competition with each other; 2) raises issues of social redistribution, social regulation and social empowerment to a regional and global level; 3) it generates a global discourse within and among global actors on the future of national and supranational social policy; and 4) finally it creates a global market in welfare providers. While in the South it has: 1) Generated severe indebtedness; 2) threatened assets and standards; 3) segmented social policy; 4) created zones of exclusion.

⁹ Referring here to the peculiar blend of the post-Thatcher government in England where Tony Blair and Anthony Giddens launched a new social contract based on the 'Third Way' as a mixture between liberal economics and governance with a human face.

¹⁰ The following is based on Hewison (2001b: 17-18).

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